

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 IO-10 ISO-00 AGR-05 CEA-01

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 2942

INFO USDEL MTN GENEVA

USMISSION GENEVA

USMISSION OECD PARIS

AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMEMBASSY GABORONE

AMCONSUL JOHANNESBURG

AMEMBASSY MASERU

AMEMBASSY MBABANE

C O N F I D E N T I A L SECTION 1 OF 2 PRETORIA 3979

E.O. 11652: GDS

TAGS: ETRD, SF, BC, LT, WZ

SUBJECT: COUNTRY PROFILE FOR MULTILATERAL TRADE NEGOTIATIONS

REF: STATE 181868

1. FOLLOWING IS OUR CONTRIBUTION TO THE "STATEMENT IDENTIFYING
HOST COUNTRY'S BASIC POLITICAL AND ECONOMIC REALITIES WHICH UNDERLIE
AND PROVIDE RATIONALE FOR ITS APPROACH TO AND POSITIONS TAKEN IN
MTN."

2. THE SOUTH AFRICAN ECONOMY IS, APART FROM OIL-RICH NIGERIA, THE
LARGEST IN SUB-SAHARAN AFRICA BUT BY ANY MORE GENERAL COMPARISON CAN
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ONLY BE CONSIDERED SMALL TO MEDIUM. A GNP OF \$31 BILLION PUTS THE

COUNTRY IN A CLASS WITH AUSTRIA, DENMARK AND TURKEY, BUT WELL BELOW HOLLAND, BELGIUM, SWITZERLAND OR SPAIN. PER CAPITA GNP OF OVER \$1000 RANKS IT WITH PORTUGAL, WELL AHEAD OF TURKEY, BUT WELL BEHIND GREECE, SPAIN OR IRELAND.

3. FOREIGN TRADE PLAYS A HUGE ROLE IN THE ECONOMY. IMPORTS (\$8.3 BILLION AND EXPORTS (\$4.6 BILLION) TOGETHER AMOUNT TO SOME 41 PERCENT OF GNP AND GOLD PRODUCTION IS ANOTHER 12 PERCENT. THE COUNTRY'S IMPORTANCE AS A TRADING NATION IS FURTHER ENHANCED BY THE COMPOSITION OF ITS EXPORTS, MOSTLY RAW MATERIALS FOR A COMMODITY-SHORT WORLD, AND BY THE LARGE MARKET IT PROVIDES FOR EXPORTS OF MANUFACTURES FROM THE INDUSTRIALIZED WORLD.

4. THE BALANCE OF PAYMENTS SHOWS SEVERAL DISTINCT AND PERSISTENT FEATURES: A HEAVY DEFICIT ON TRADE, LARGE EARNINGS FROM GOLD, LARGE INTEREST AND DIVIDEND OUTFLOWS, AND STEADY CAPITAL INFLOWS. THE AVERAGE OF THE THREE YEARS 1972-1974 SHOWS A MERCHANDISE DEFICIT OF \$1,930 MILLION, GOLD SALES OF \$2,563M, NET SERVICE PAYMENTS OF \$1,071M, AND NET CAPITAL INFLOWS OF \$504M. THE DEPENDENCE ON GOLD AND ON CAPITAL IMPORTS REFLECTED IN THESE FIGURES IS A SEMI-PERMANENT FEATURE OF THE BALANCE OF PAYMENTS AND THE GOVERNMENT (IN ITS DEVELOPMENT PROGRAM) ASSUMES THAT THIS DEPENDENCE WILL CONTINUE AT LEAST FOR THE PROGRAM PERIOD (1974-79). GOLD PRODUCTION AT ABOUT PRESENT LEVELS (758 METRIC TONS), A GOLD PRICE OF ABOUT \$140 (1975 DOLLARS), AND CAPITAL IMPORTS OF \$200-300 MILLION ARE PREREQUISITES FOR CONTINUED RAPID DEVELOPMENT. THE FALL IN THE GOLD PRICE IN THE THIRD QUARTER OF 1975 AND THE DEVALUATION OF THE RAND THAT IT HELPED PROVOKE HAVE REMINDED THE COUNTRY OF ITS GREAT DEPENDENCE ON GOLD, JUST AS YEARS EARLIER THE OUTFLOW OF CAPITAL FOLLOWING THE SHARPEVILLE TRAGEDY (1961) REMINDED THE COUNTRY OF ITS NEED FOR FOREIGN CAPITAL. WHILE THE GOVERNMENT IS MAKING GREAT EFFORTS TO INCREASE MERCHANDISE EXPORTS, THE COUNTRY WILL REMAIN DEPENDENT ON GOLD AND FOREIGN CAPITAL FOR MANY YEARS TO COME.

5. SOUTH AFRICANS OFTEN BOAST ABOUT THEIR "FREE ENTERPRISE" ECONOMY BUT IN FACT IT IS HIGHLY CONTROLLED. PRICES OF VARIOUS NECESSITIES ARE FIXED BY LAW AND MOST OTHER PRICES AND WAGES ARE SUBJECT TO A NEW

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(OCTOBER 1975) VOLUNTARY RESTRAINT PROGRAM. ELECTRICITY, RAIL AND AIR TRANSPORTATION, HARBORS, PIPELINES, SOME MINING AND PRODUCTION OF SYNTHETIC FUELS ARE ALL IN THE HANDS OF STATE CORPORATIONS OR GOVERNMENT DEPARTMENTS. RESTRAINTS ON THE HIRING OF BLACKS MAKE THE LABOR MARKET HIGHLY ARTIFICIAL. IMPORT CONTROLS, EXPORT SUBSIDIES, TARIFFS AND VARIOUS OTHER BARRIERS TO TRADE, AND MARKETING BOARDS FOR MOST AGRICULTURAL COMMODITIES MAKE THE FOREIGN TRADE SECTOR HIGHLY CO
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TROLLED AND RELATIVELY UNRESPONSIVE TO EXCHANGE RATE CHANGES. THE DEVOTION TO "FREE ENTERPRISE" IS THUS LARGELY RHETORICAL AND IN ANY CASE STOPS AT THE WATER'S EDGE WHEN IT CONFLICTS WITH THE GOVERNMENT'S DETERMINATION TO FOSTER INDUSTRIAL DEVELOPMENT AND DIVERSIFICATION.

6. THE ECONOMY HAS PERFORMED WELL IN THE ENTIRE POST-WAR PERIOD. REAL GROWTH HAS BEEN REGISTERED EVERY YEAR AND REAL GDP DOUBLED BETWEEN 1946 AND 1961, AND AGAIN BY 1974. REAL GROWTH (GDP) WAS 7.2 PERCENT IN 1974. THIS HAPPY PICTURE HAS RECENTLY BEEN CLOUDED, HOWEVER, BY A WORSENING TRADE DEFICIT - \$4.2 BILLION IN THE YEAR TO JUNE 30, 1975, AS AGAINST \$1.4 BILLION IN CALENDAR YEAR 1973 - AND BY THE FALL IN THE GOLD PRICE OF THE THIRD QUARTER OF 1975. THESE FACTORS AND HEAVY SPECULATION AGAINST THE RAND HAVE FORCED A SUBSTANTIAL DEVALUATION (FROM \$1.40 TO \$1.15), WITH ALL THAT IT IMPLIES FOR PRICES (WHICH WERE IN ANY CASE INCREASING AT A 13 PERCENT ANNUAL RATE) AND FOR THE TERMS OF TRADE. OPEC OIL PRICES AND THE WORLD RECESSION, WHICH WERE BOTH MASKED BY RISING GOLD PRICES, HAVE HIT SOUTH AFRICA MORE THAN A YEAR LATE.

7. SOUTH AFRICA IS ALMOST UNIVERSALLY CONDEMNED FOR ITS RACIAL POLICES ("APARTHEID") AND FOR ITS ILLEGAL ADMINISTRATION OF SOUTH WEST AFRICA (NAMIBIA) AND HAS BEEN EFFECTIVELY EXCLUDED FROM MOST INTERNATIONAL ORGANIZATIONS. IT HAS, HOWEVER, MANAGED TO CONTINUE AS A FULL PARTICIPANT IN IMF, THE IBRD, AND GATT. IN THE MTN IT WILL NEGOTIATE FOR ITSELF AND FOR BOTSWANA, LESOTHO AND SWAZILAND, THE THREE SMALL MEMBERS OF THE SOUTHERN AFRICA CUSTOMS AREA. THEIR INFLUENCE ON SOUTH AFRICAN POSITIONS IN THE MTN WILL PROBABLY BE NEGLIGIBLE.

8. THESE CIRCUMSTANCES DICTATE AN ESSENTIALLY PASSIVE ROLE FOR SOUTH AFRICA IN THE MULTILATERAL TRADE NEGOTIATIONS. OUR CONVERSATIONS WITH

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SOUTH AFRICAN OFFICIALS LEAD US TO BELIEVE THAT THE COUNTRY WILL PLAY AN ACTIVE PART IN THE NEGOTIATIONS ONLY WHEN ITS CONCRETE INTERESTS ARE DIRECTLY INVOLVED, AS THEY ARE AND IT DOES IN THE IMF. SOUTH AFRICA CONSIDERS ITSELF A DEVELOPING OR SEMI-DEVELOPED COUNTRY AND ITS OFFICIALS OFTEN LAMENT HAVING OPTED FOR DEVELOPED STATUS (LARGELY FOR PRESTIGE REASONS) IN GATT WHEN THE ORGANIZATION WAS FOUNDED. THEY BELIEVE THEY ARE ENTITLED TO SPECIAL CONSIDERATION AS THE "LEAST DEVELOPED OF THE DEVELOPED" AND CAN BE EXPECTED TO MAKE THIS POINT WHEN OBLIGATIONS BASED ON THEIR FORMAL STATUS AS A DEVELOPED COUNTRY ARE ASKED OF THEM.

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9. A CIRCUMSPECT APPROACH IS ALSO DICTATED BY THE RELATIVELY SMALL SIZE OF SOUTH AFRICA'S TRADE COMPARED WITH THAT OF THE TRADING GIANTS

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LIKE OTHER SMALL COUNTRIES SOUTH AFRICA HOPES TO GAIN ADVANTAGES FROM THE MFN CONCESSIONS OF THE MAJOR POWERS WITHOUT HAVING TO PAY A COMPARABLE PRICE IN TRADE CONCESSIONS OF ITS OWN. (SOUTH AFRICAN OFFICIALS HAVE SCARCELY FOCUSED ON THE POSSIBILITY THAT SOME FORM OF "CONDITIONAL MFN" ARRANGEMENT COULD EMERGE IN GENEVA AND MAKE IT MORE DIFFICULT FOR A SMALL DEVELOPED COUNTRY TO BENEFIT UNILATERALLY IN THE PRESENT ROUND THAN WAS THE CASE IN THE KENNEDY AND EARLIER ROUNDS.)

10. SOUTH AFRICA'S OWN RECORD OF SCANT RESPECT FOR GATT PRINCIPLES,

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PARTICULARLY IN THE FIELD OF EXPORT SUBSIDIES AND NON-TARIFF BARRIERS

ALSO DISCOURAGES THE COUNTRY FROM TAKING A LEADING ROLE IN THE NEGOTIATIONS

IT IS DIFFICULT FOR THE HABITUAL OFFENDER TO CRUSADE FOR TIGHTER

RULES OR BETTER ENFORCEMENT, EVEN IF ON SPECIFIC ISSUES HE CAN SEE POTENTIAL BENEFITS FOR HIMSELF.

11. SOUTH AFRICA'S CIRCUMSTANCES AS A PARIAH AMONG NATIONS, UNDER A POTENTIAL THREAT FROM ITS NEIGHBORS AND LIVING IN A HOSTILE INTERNATIONAL ATMOSPHERE, REINFORCES THE COUNTRY'S DETERMINATION TO SEEK

GREATER ECONOMIC INDEPENDENCE. THIS, PLUS ITS FELT NEED TO INDUSTRIALIZE

FOR ECONOMIC AND SOCIAL REASONS, FOSTERS THE VIEW OF MANY OFFICIALS THAT INTERNATIONAL TRADING RULES ARE INCONVENIENT RESTRAINTS THAT MAY BE IGNORED OR EVADED WHEN THEY CONFLICT WITH IMPORTANT SOUTH AFRICAN INTERESTS.

12. FINALLY, SOUTH AFRICA IS RESTRAINED FROM TAKING A LEAD OR PLAYING A PROMINENT ROLE IN THE MTN BY THE PARTICIPATION IN THE NEGOTIATIONS OF NATIONS HOSTILE TO IT AND PRONE TO ENGAGE IN VOCIFEROUS ATTACKS ON IT, EVEN IN BODIES THAT SEEM LITTLE SUITED TO POLITICAL TIRADES. WHILE GATT AND MTN ARE WIDELY CONSIDERED RICH MEN'S CLUBS, A ZAIRE, NIGERIA, A UGANDA OR OTHER LDC PARTICIPANTS IN THE MTN COULD DECIDE TO MAKE REGULAR ATTACKS ON SOUTH AFRICA IF IT RAISED ITS HEAD IN THE NEGOTIATIONS. IT IS USED TO THESE ATTACKS BUT DOES NOT RELISH OR COURT THEM.

13. WE THUS EXPECT SOUTH AFRICA TO ADOPT A VERY LOW PROFILE IN THE MTN, AS IN INTERNATIONAL MEETINGS GENERALLY. THIS ATTITUDE WILL BE TEMPERED SLIGHTLY ONLY BY SOUTH AFRICA'S DESIRE TO REMAIN A MEMBER IN GOOD STANDING OF THOSE FEW ORGANIZATIONS WHERE SHE IS STILL WELCOME AND BY ONE CONSIDERATION OF INTENSE CURRENT CONCERN THAT IS OF SPECIAL

INTEREST TO HER. THIS IS THE MATTER OF ACCESS TO RAW MATERIALS AS A POSSIBLE SUBJECT FOR INCLUSION IN THE NEGOTIATIONS. AS A MAJOR SUPPLIER OF VARIOUS IMPORTANT MATERIALS SOUTH AFRICA REALIZES THE POTENTIAL THIS

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POSITION MAY HAVE FOR IMPROVING HER NEGOTIATING LEVERAGE AND GIVING HER

BARGAINING CHIPS TO TRADE OFF AGAINST CONCESSIONS IN THE MORE

TRADITIONAL

AREAS OF TARIFFS OR NTB'S. THE GOVERNMENT IS LOOKING AT THIS QUESTION
BUT WE HAVE THE IMPRESSION THAT ITS THINKING HAS NOT GONE VERY FAR.
EVEN IN THIS FIELD WE DO NOT EXPECT SOUTH AFRICA TO TAKE THE LEAD BUT
WE DO EXPECT HER TO LISTEN ATTENTIVELY TO WHATEVER THE US OR OTHER
PARTICIPANTS MAY PROPOSE.

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